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TAGS: [PREL](#) [PGOV](#) [ECON](#) [PINR](#) [HK](#) [CH](#)
SUBJECT: THE COLOSSUS: A YEAR OF DONALD TSANG

Classified By: Consul General James B. Cunningham. Reasons: 1.4 (b,d).

11. (C) Summary. After a year in office, despite what appeared to be a series of political defeats, Chief Executive Donald Tsang has mastered Hong Kong's political scene and seems to dominate his opponents and rivals on all sides. Buoyed by continued strong economic growth, Tsang has effectively deployed an effective personal style and has maintained popularity in public opinion polls, albeit somewhat down from his peak. Facing an election process to begin his first full term, Tsang's success is assured: even if the pan-democrats can nominate a credible candidate, it is clear to all that Beijing will not accept any substitute for Tsang. Nevertheless, a contested campaign with a popular

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alternative candidate like Anson Chan could prove difficult for both Tsang and Beijing in dealing with public opinion. It appears that Beijing is working hard to prevent an alternative from emerging. In his next term, Tsang will need to focus on serious structural problems that are not now being addressed: the public's desire for greater democratization as well as systemic flaws in Hong Kong's system, on the political side, and the challenge of maintaining Hong Kong's competitive edge while managing increasing integration into the mainland economy, on the economic side. Nor has his leadership been tested by economic or social crisis, and of course Tsang remains vulnerable to changes in Beijing's political climate. End Summary.

12. (C) It may seem paradoxical to call Donald Tsang's first year in office a success, considering that his high profile democratic reform proposal failed to win Legislative Council (Legco) approval in December 2005, and that he was forced to shelve the West Kowloon Cultural District project in February 12006. Of his three "signature" projects, he has only succeeded in moving forward with the new government office complex at Tamar, for which Legco approved funding on July 23 -- and even Tamar could be overturned at a later date. However, Tsang is likely to revisit both constitutional reform and the West Kowloon project in his next term. Furthermore, the extent to which these failures have damaged his prestige or limited his political power is probably

minimal.

13. (C) When Tsang took office, it was widely understood that he would have only limited freedom to change personnel in the government. Nonetheless, he has added several of his own choices to the Executive Council (Exco), and made several adjustments to the ministerial and sub-ministerial ranks, including choosing his own Secretary for Justice, the third ranking position in the government. Most importantly, he has installed a key ally, former Secretary for Commerce Industry and Technology John Tsang (no relation), as his chief of staff -- and possible successor. (It is a clear sign of how secure Tsang's power is at this point that there is already active speculation about who will be best positioned to succeed him in 2012!) There is widespread expectation that Tsang will make further changes after his expected

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re-election in March 2007, when he will be free to discard Tung's appointees.

14. (C) Tsang has used Beijing's support, and his personal popularity, to clearly distinguish himself from his predecessor. Early in his tenure, when it seemed his constitutional reform package could pass, he convinced Beijing to permit him to lead a delegation of all Legco, including members previously banned, to meet with Guangdong provincial leaders. On a very different level, after years of HKG insistence that Hong Kong did not need competition legislation, Tsang authorized creation of a task force that has now recommended putting a formal structure in place that can take on non-competitive business practices regardless of which sectors are involved. Hong Kong's strong economic performance has allowed Tsang the luxury of a tax cut -- albeit very limited -- even as the government also prepares for the eventual introduction of some form of sales tax.

HONG KONG 00002741 002 OF 003

15. (C) Even as Chief Secretary, Donald Tsang did well in popularity polls; when he took on that position in 2001 after Anson Chan stepped down, his approval rating was 67.3 percent. Dragged down by the overall unpopularity of the Tung administration, his approval fell to 55.9 percent immediately after the historic July 1, 2003 march. When he was named as Tung's successor, he enjoyed over 70 percent approval, and even at his lowest point -- in December 2005, during the contest over his constitutional reform package -- his approval rating was 64.2 percent. His approval rating remains in the mid-60s. He even had the support of 45 percent of the pro-democracy marchers on July 1, 2006.

16. (C) Tsang took office with few if any allies among the local political class. The so-called "pro-government parties" distrusted him. Traditional leftists, who comprise the base of the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB), the largest pro-Beijing party, saw him as a holdover from the colonial administration, and criticized his knighthood. The business class does not, in general, value bureaucrats and did not see Tsang as more than an administrator. Many among the pan-democrats feared and distrusted him, recognizing that he would be more credible than his predecessor C.H. Tung in connecting emotionally with the middle class, and would provide the public with the more responsive and effective governance that they ultimately desired. As a sort of latter-day mandarin, however, he would not be fundamentally sympathetic to democracy.

17. (C) However, Tsang had Beijing's backing, and has been able to keep it. In the past year, he has already hosted two visits by members of the CCP Politburo's Standing Committee -- compared with nine visits (by six different members, including the handover ceremony itself, and four visits by Jiang Zemin) in the more than seven years of C.H. Tung's tenure. At several junctures, Hong Kong leftists have floated rumors that Beijing was dissatisfied with Tsang's

performance, either because of his public remarks or for specific policy failures like the collapse of constitutional reform. Each time, Tsang has been able to produce a clear endorsement from Beijing, forcing the left to fall in line behind him.

18. (C) Tsang has kept Beijing's support for a variety of reasons, but undoubtedly his success at weakening Hong Kong's democrats has been an important element. Today the democrats are divided, with an increasingly clear line between the newly formed, more moderate Civic Party (CP) and the traditional standard bearer, Democratic Party (DP). Their core issue, democracy, is still potent but less urgent, now that the unlucky, inept and unpopular C.H. Tung is gone. Turnout at the July 1 pro-democracy march, while better than expected, was still far below the 2003 and 2004 totals, or even the December 2005 march against Tsang's constitutional reform proposal. This satisfies Beijing's fervent desire that the masses be kept out of the streets. The pan-democrats have been so weakened that they have had to go outside their own ranks for a potential CE candidate, and are trying to recruit former Chief Secretary Anson Chan. No doubt Chan is a popular and credible candidate, and her alignment with the democratic camp is a significant benefit for them. But she is holding her own counsel while leaving the door open. If she does so, she will be a formidable opponent in forcing Tsang to have a genuine policy debate that he and Beijing may find hard to handle.

19. (C) Thanks to Beijing's support, Tsang seems to have satisfied the broader business community that he is able to look out for Hong Kong's economic interests on the mainland. He has engaged with the "Pan-PRD" "9 plus 2" process and has steadily won incremental improvements in Hong Kong service sector market access under the Closer Economic Partnership Arrangement. It seems as though Hong Kong is on the verge of being permitted a further expansion of renminbi business, including the possibility of issuing renminbi debt instruments in Hong Kong - whether this is really an economic boon for Hong Kong's financial sector is questionable, but

HONG KONG 00002741 003 OF 003

since it is perceived as a good thing, it probably rebounds to Tsang's credit. Meanwhile, Hong Kong is still the market of choice for mainland IPOs, including, over the past year, hosting the world's two largest: the USD 11 billion Bank of China listing and the USD 9 billion China Construction Bank listing.

10. (C) Tsang's leadership has not been tested by the kind of difficult situations about which C.H. Tung frequently complained, such as the Asian financial crisis or SARS. Certainly his popularity and political dominance would be stressed by a significant downturn in the U.S. and/or in the mainland. His deft handling of the Asian financial crisis as Financial Secretary, which helped shelter Hong Kong from the worst of the downturn, however, suggests that he would be willing to take bold measures as needed. Furthermore, he is much less likely to create his own troubles, as Tung did with the Article 23 National Security legislation. Perhaps his greatest vulnerability is to leadership shifts in Beijing, if they led to different policies towards Hong Kong or towards his own position.
Cunningham